



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

OWD 720.3.1

September 30, 2002
02-OWD-052(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Charging Auditor Effort and Disposition of Incurred Cost Assignment When Contracting Officer Unilaterally Determines Total Contract Costs

The purpose of this memorandum is to provide guidance for charging auditor effort and dispositioning an incurred cost assignment when the contracting officer unilaterally determines total contract cost. The requirement is effective **immediately** and should be used for all such assignments.

Background

Policy & Plans issued guidance for obtaining overdue incurred cost proposals and for dealing with unresponsive contractors in MRD 01-PPD-015(R), *Audit Guidance on Overdue Final Indirect Cost Rate Proposals*, dated February 7, 2001. The procedures for developing unilateral rate recommendations for contracting officers were revised in MRD 02-PPD-049(R), *Audit Guidance on Procedures for Developing Unilateral Contract Cost Recommendations for Contracting Officers*, dated June 17, 2002. The guidance contains procedures for obtaining overdue final indirect cost rate proposals by issuing a series of letters/memorandums, each of which is intended to obtain delinquent submissions. As stated in the Policy guidance, when a contractor is 6 months overdue and has not been granted an extension by the contracting officer, FAOs should issue a memorandum recommending the contracting officer unilaterally establish indirect cost rates and/or total contract cost.

Prior Guidance

In DMIS, FAOs are to charge audit effort for developing and reporting recommended unilateral rates to a separate assignment under code 15500 – Provisional Billing Rate Audits. This would include audit effort for determining that contractor does not meet the conditions for using relevant historical data and that the DCAA-wide unallowable cost decrement factor should be used. The assignment should be closed as “*No Report Issued*” when the unilateral recommendation memorandum is provided to the contracting officer. FAOs should enter the provisional billing rate assignment number in Agency Wildcard 3 field for each applicable 10100 incurred cost assignment. As of the date of this MRD (September 2002), we have, Agency-wide, 16 code 15500 assignments with 199 actual hours. In the February 2001 Policy guidance, it was explained that the incurred cost assignment should remain open until further guidance was provided on dispositioning this assignment when the contracting officer renders a unilateral decision.

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We currently have 70 assignments with unilateral rate recommendations, with an ADV value of approximately \$105 million. For these assignments, and any subsequent assignments where unilateral rate recommendations are to be utilized, the following guidance should be followed to disposition the assignment.

Updated Guidance

The sequence of events and how effort is to be charged is as follows:

- The procedures for issuing letters and/or memorandums for contractors with overdue final indirect cost rate proposals are defined in CAM 6-707.2a. An additional letter to the contractor (referred to as letter #4) when the submission is 5 months overdue was added in the June 2002 Policy MRD 02-PPD-049 and will be included in the January 2003 CAM edition. Overall, it is expected that the effort associated with issuing these letters and/or memorandums on overdue submissions will be primarily administrative. Any auditor effort incurred for these steps, which is expected to be minimal, should be charged to the incurred cost assignment.
- If not yet established during the course of the initial effort, after issuing the “5 Months Overdue Letter” (Letter #4), open the incurred cost assignment.
- As discussed in MRD 02-PPD-049, within 30 days after issuing Letter #4, if the contractor has failed to submit its final indirect cost proposal or has not been granted an extension by the contracting officer, then issue a memorandum to the contracting officer recommending that contract costs be unilaterally determined.
 - Auditor effort for developing unilateral recommendations and/or assistance to the ACO should be charged to the incurred cost assignment. *Note:* Additional information on other considerations involved in this step is outlined in the June 2002 Policy MRD (02-PPD-049).
 - Provide additional recommendations and assistance, as necessary, consistent with the above Policy guidance memorandum.

The incurred cost assignment should be dispositioned in DMIS as follows:

- Close as “*No Report Issued*” when the contracting officer executes the unilateral determination.
- FAO determines if the effort is warranted to report or not report dollars.
 - If FAO decides dollars are insignificant and the effort to report dollars is not warranted, report “Dollars Examined Gross” and “Costs Questioned” as zero.
 - If FAO decides the effort to report dollars is warranted or the dollars are material, report dollars in DMIS. For example,
 - Report as “Dollars Examined Gross” the total auditable dollar volume (which includes costs for government flexibly priced contracts and subcontracts and billed amounts for Time and Material and Labor-hour contracts) based on the contractor books and records.

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- Report as “Costs Questioned” the difference between the above Dollars Examined Gross and the recommended total contract cost.
- Report sustained costs and net savings once the final outcome of our recommendation is known (e.g., contractor accepts, statutory time period for appeal expires, resolution of appeal).
- DMIS Calculation Worksheet should be used to compute amounts to enter in DMIS in order to adjust for assist audits and findings during concurrent auditing, if applicable.

Conclusion

As detailed in the Policy guidance, if the contractor provides an adequate incurred cost proposal, the auditor should proceed with the audit. If the contractor accepts the unilateral determination, or takes no action to modify the contracting officer’s determination, the FAO should disposition the assignment in accordance with this guidance. Auditors with questions regarding this memorandum should contact their regional office. Regional personnel with questions regarding this memorandum should contact Mr. Sam Cave, Program Manager, Workload Analysis Division, at (703) 767-2263 or by e-mail at Sam.Cave@dcaa.mil.

/s/

Earl J. Newman
Assistant Director
Operations

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